3

Importance of U.S. FARM EXPORTS to Balance of Payments

+B a

5b

Economic Research Service
and
Foreign Agricultural Service

U.S. Department of Agriculture

7a Foreign Agricultural Economic Report No. 7

CONTENTS

Prepared under Supervision of
Warrick E. Elrod, Jr., Chief
International Monetary Branch
Development & Trade Analysis Division
Economic Research Service
United States Department of Agriculture

October 1962

SUMMARY

The export market is a major outlet for U.S. farm products. The percentage of farm originating gross product that was exported rose from 12 percent in 1951 to 14 percent in 1960. All farm exports are recorded in the Nation's balance of payments as dollar earnings.

Farm exports totaled $4.9 billion in the fiscal year ending June 30, 1961. Almost one-third of U.S. farm exports ($1.5 billion) in fiscal 1961 were financed under U.S. Government export programs and were either sold for foreign currencies, donated, or bartered. Farm exports, including those financed by the U.S. Government, represented one-fourth of total U.S. merchandise exports.

Commodities sold for foreign currencies under Title I, P.L. 480 (Agricultural Trade Development and Assistance Act of 1954) or donated abroad under Titles II and III, P.L. 480, have no accounting effect on the overall balance of American transactions with nations abroad. The balance is measured by changes in gold and foreign currency holdings of U.S. monetary authorities and the change in short-term liabilities to foreign countries.

Farm exports sold for foreign currencies under Title I, and donations under Titles II and III, were equivalent to $1.3 billion, or 7 percent of total merchandise exports in fiscal 1961. Transportation costs added another $52 million to receipts (credits). These receipts of $1.4 billion represented 4.8 percent of total United States earnings from the export of goods and services ($27.9 billion) and 4.6 percent of total recorded receipts ($29.6 billion).

Farm exports financed under Title I generated receipts of foreign currency equivalent to over $1 billion. This receipt (credit) is offset by payments (debits) representing foreign currency disbursements of $600 million and a balance of $406 million recorded in the U.S. Government account of foreign currency holdings and short-term claims. The value of donated farm exports financed under Titles II and III and the transportation costs are recorded as a dollar receipt (credit) and offset by a recorded payment (debit) in the U.S. Government grant account.

Foreign currencies acquired through the sale of surplus farm commodities are used to finance part of U.S. Government military and economic assistance operations abroad. Foreign currencies used by the U.S. Government abroad and available without charge to dollar appropriations were equivalent to $502 million in fiscal 1961. The availability of this currency enables the U.S. Government to finance overseas operations over and above the amount of dollars appropriated by Congress for this purpose. Currencies supplementing dollar appropriations were used as follows in fiscal 1961: The equivalent of $8 million for military expenditures, $11 million for various U.S. Government purchases of goods and services, $104 million for economic grants, and $379 million for loans abroad. In the absence of these foreign currencies the deficit in the U.S. balance of payments would

have increased by an equivalent amount, assuming no reduction in U.S. expenditures and a consequent purchase for dollars of the needed foreign exchange.

Sixteen percent of foreign currencies obtained from Title I sales receipts, equivalent to $98 million, were sold for dollars by the Treasury Department to U.S. Government agencies, thus eliminating the need to move additional dollars abroad. These currencies financed a part of the regular diplomatic and other U.S. Government agency foreign operations.

The substitution of foreign currencies for dollars in partially financing U.S. military and economic assistance programs and U.S. Government agency operations abroad results in no additions to the holdings of short-term dollar assets of foreign governments and monetary authorities. Thus there is no increase in claims against the U.S. gold stock.

The availability of these foreign currencies is particularly important at this time, because over the 11-year period ending June 30, 1961, the U.S. balance of payments has been in deficit every year except in 1952 and 1957. The deficit rose to a high of $3.7 billion in fiscal 1959 but dropped to $2.5 billion in fiscal 1960. In fiscal 1961, the deficit was $2.7 billion. Gold losses from U.S. monetary stocks totaled $5.1 billion in the fiscal years 1958 through 1961. Recurring deficits over a long period of time could result in decisions by some foreign central governments and central banks to convert more of their sizeable short-term dollar claims into gold.

IMPORTANCE OF U.S. FARM EXPORTS TO BALANCE OF PAYMENTS

by

McGehee H. Spears
~~Economic Research Service~~

and

Dale K. Vining
Foreign Agricultural Service

INTRODUCTION

This paper investigates the significance of farm exports to the agricultural sector of the U.S. economy; examines U.S. Government farm export programs; and explores the importance of these exports to the U.S. balance of international payments.

All U.S. farm exports are recorded in the U.S. balance of payments as dollar earnings. In recent years an increasing proportion of farm exports has been financed by the U.S. Government. In the fiscal year ending June 30, 1961, almost one-third of farm exports ($1.5 billion of a total of $4.9 billion) were sold for foreign currencies, donated or bartered. Farm exports sold through regular commercial channels for dollars totaled $3.4 billion, or 70 percent of total farm exports. Farm exports, including those financed by the Government, comprised 25 percent of total merchandise exports in fiscal 1961.

IMPORTANCE OF EXPORT MARKETS TO AMERICAN AGRICULTURE

The export market contributes to raising the level of farm income and is a major outlet for the gross product of the agricultural sector. In fiscal 1961, farm exports produced 15 percent of total farm cash receipts (table 1). Exports of rice, wheat, and cotton were equivalent to 55 percent, 51 percent, and 44 percent of total farm cash receipts received for these respective crops. For the remaining farm commodities, including tobacco, soybeans, and feed grains, exports were equivalent to about one-third of farm cash receipts.

Farm exports accounted for 14 percent of the total gross product (excluding housing) originating in agriculture in 1960, compared with 12 percent in 1951 and 11 percent in 1955. By comparison, non-farm merchandise exports as a percentage of gross product originating in the non-farm sector (excluding services and construction) remained unchanged at about 6 percent between 1951 and 1960 (fig. 1). 1/

U.S. GOVERNMENT FARM EXPORT PROGRAMS

The U.S. Government, through the price-support operations of the Commodity Credit Corporation, has acquired large quantities of farm commodities which are in excess of domestic market demand. These Government-owned surplus farm commodities are referred to as the CCC price-support inventory.

Surplus farm commodities in the price-support inventory are available for utilization in both domestic and foreign markets or in non-competitive outlets, i.e. grants or donations. U.S. Government export programs play an important role in moving farm commodities abroad. These programs, initiated to encourage the export of farm commodities, may be classified into two broad groups: (1) Those which facilitate the export of farm commodities through regular commercial channels; and (2) those which complement the Government's economic assistance programs in underdeveloped countries.

1/ Aggregate value of farm exports was adjusted to exclude the value of non-farm intermediate products. Value added in the farm sector as a percentage of the total value of farm output of goods was 63 percent in 1951, 59 percent in 1955 and 53 percent in 1960. By applying these percentages to the total value of farm exports in respective years farm sector value added as a proportion of exports is obtained. These exports reflect not only the farm sector value added, but also transportation and trade margins. Ideally exports should be adjusted to exclude such margins. However, it is assumed that these margins, if ascertainable, would be insignificant.

Table 1.--U.S. farm exports in fiscal 1960-61 as a percentage of farm cash receipts per commodity in calendar 1960

Agricultural commodity	Farm cash receipts	Exports	
		Value	Percentage of receipts
	Million dollars	Million dollars	Percent
Rice	246	135	55
Wheat	2,245	1,151	51
Cotton	2,142	937	44
Soybeans	1,105	344	31
Tobacco	1,156	385	33
Feed grains	2,584	577	22
Livestock & livestock products	18,934	613	3
Other	5,606	804	14
All commodities	34,018	4,946	15

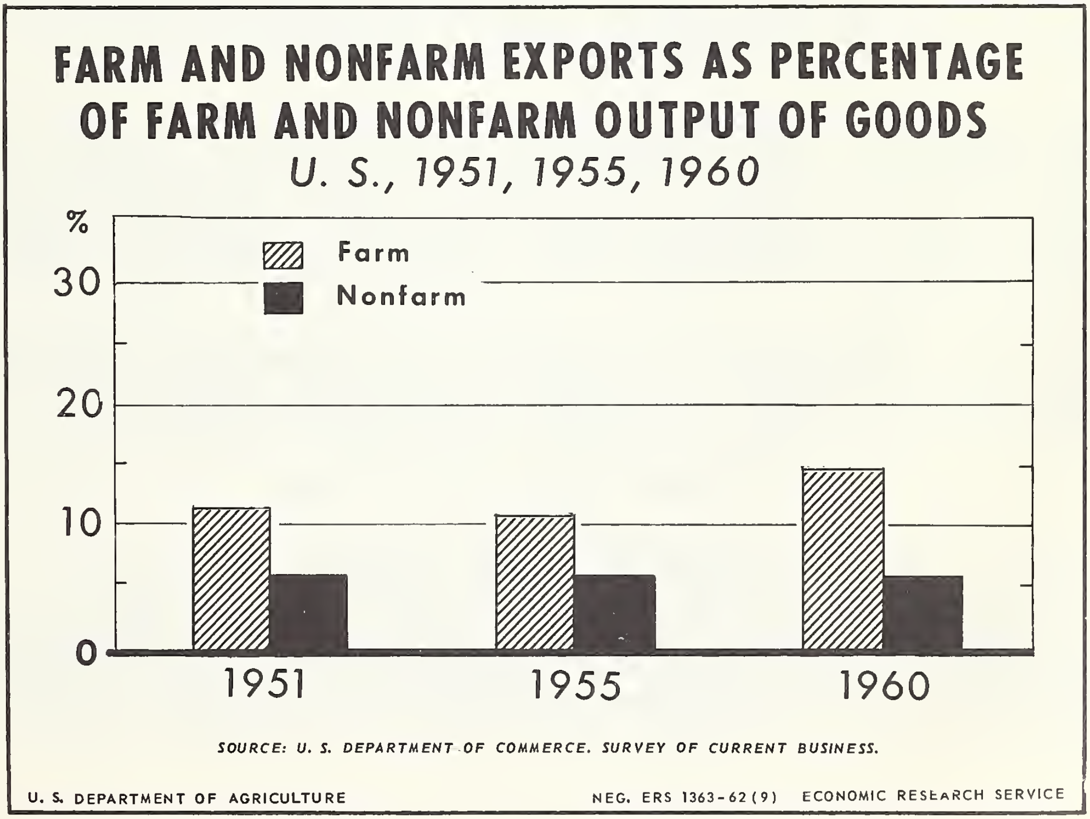

Figure 1

Government farm export programs in the first group include the CCC Commodity Export Program, the CCC Export Credit Sales Program, and the credit facilities of the Export-Import Bank of Washington. Export programs in the second group include long-term commodity loans authorized under Title IV, P.L. 480 (Agricultural Trade Development and Assistance Act of 1954, as amended); barter operations for strategic and critical materials under Title III, P.L. 480, as amended; grants and donations of surplus farm commodities under Titles II and III, P.L. 480, as amended; and the sale of surplus farm commodities for foreign currencies under Title I, P.L. 480, as amended; Section 402, P.L. 665, as amended; Section 550, P.L. 165, as amended. Sales under the latter two authorities are currently of minor significance.

Farm export programs are administered by different government agencies, but for the purpose of carrying out their responsibilities they draw extensively upon the CCC price-support inventory and the financial resources of CCC. The CCC investment in, and costs of supplying, surplus farm commodities are reimbursed through sales to commercial exporters and government agencies, and through congressional appropriations.

1. Programs Facilitating Commercial Exports

CCC Commodity Export Program

The CCC Commodity Export Program encourages the exportation of many farm commodities, except those donated abroad, through payments to commercial exporters. The CCC is authorized to make such payments in cash or in kind contingent upon the commodities exported.

Export payments on wheat flour and cotton products are made in cash. Export payments on upland cotton, barley, corn, grain sorghum, oats, rye and wheat are made in kind. Certificates are issued to the exporter and are redeemable for the same or similar commodities. Payments on wheat exported under the International Wheat Agreement are also made by redeemable certificates.

The CCC also authorizes credit to commercial firms exporting certain farm commodities and products. A commercial firm which purchases such commodities from the CCC may defer payment for periods up to 36 months.

Export-Import Bank Commodity Loans

The Export-Import Bank of Washington is an independent agency of the U.S. Government. The Bank finances U.S. exports and imports by extending credits and providing guarantees for loans made by private lenders. It also extends project loans to private enterprises and foreign governments purchasing U.S. goods and services, including farm commodities. Agricultural commodity loans are made for periods of 12 to 15 months and are repayable in dollars.

The Bank has made many agricultural commodity loans for cotton, grains, soybeans, and tobacco. In the fiscal year ending June 30, 1961, the Bank made one commodity loan of $60 million to Japan for the purchase of raw cotton.

On February 5, 1962, the Export-Import Bank, in cooperation with the Foreign Credit Insurance Association, announced a new credit insurance program for U.S. exporters. This program, insuring exporters against commercial and political risks on short-term transactions, includes coverage for farm exports.

2. Programs Complementary to Foreign Economic Assistance

Title IV, P.L. 480 Commodity Loans

Title IV of P.L. 480, approved September 21, 1959, provides for the use of U.S. surplus farm commodities in assisting economic development in friendly nations. Commodities may be delivered over periods of up to 10 years. The credit period may extend up to 20 years; principal and interest repayable in dollars.

Several foreign governments and the U.S. Department of Agriculture, which is assigned responsibility for administering the commodity loan program, are currently negotiating Title IV loan agreements. The first three loan agreements under this title were signed in the second half of 1961 with El Salvador, Portugal, and Venezuela.

CCC Barter Operations

CCC barter operations involve the exchange of surplus U.S. farm commodities for strategic or other materials required in offshore construction programs of the U.S. Government, or for materials which can be used in U.S. foreign aid programs. Wheat, cotton, and feed grains are the major farm commodities exported for barter. The barter program is conducted under several legislative authorizations: The CCC Charter Act and the Agricultural Acts of 1949, 1954, and 1956. Title III, P.L. 480 broadened the authority of the barter program. Contracts are made between the CCC and U.S. firms, under which these firms agree to export surplus farm commodities to approved destinations. Between the fiscal years 1949 through 1961, the value of surplus farm commodities exported under barter contracts, totaled $1.4 billion. The value of strategic and other materials delivered to the CCC in exchange totaled $1.3 billion during the same period.

Commodity Grants and Donations

Surplus farm commodities stored by the CCC are available for domestic donations through the Direct Distribution Program to schools, chartibable institutions, and needy persons. Farm commodities in the price-support inventory are available also for foreign donations.

Since the enactment of Section 416 (as amended by Title III of P.L. 480) of the Agricultural Act of 1949 through June 30, 1961, about 13.4 billion pounds of surplus farm commodities have been donated to 33 agencies operating in 120 countries and territories. In fiscal 1961 alone, surplus farm commodities were donated to 56 million persons in 99 countries and territories. Donated surplus farm commodities are valued at nominal export value.

Title II donations are primarily for the relief of famine or emergency assistance, and promoting economic development in underdeveloped countries. Authority for the use of surplus farm commodities for promoting economic development was added by Congress in May 1960. Farm commodities are used as part payment of wages on relatively simple projects. The receiving country pays the remaining wages in cash, and also pays for the tools and materials. Donated surplus farm commodities are valued at CCC cost, which includes the cost of acquisition, processing, packing, handling, and transporting. The Agency for International Development (AID) is responsible for administering the Title II program.

Sales for Foreign Currency

The sale of surplus farm commodities in exchange for foreign currencies was first authorized under the Mutual Security Program in 1953 by Section 550 of P.L. 165, as amended, and later under Section 402 of P.L. 665, as amended. 2/ The first sales for foreign currency under the Mutual Security Program were made in fiscal 1954; sales under this program have recently ended. In fiscal 1955, the Title I, P.L. 480 sales program became operative. Primary responsibility for administering the Title I program is assigned to the Secretary of Agriculture.

Both sales programs draw extensively on the price-support inventory and the financial resources of CCC in procuring the necessary surplus farm commodities. A major difference exists between the administration and internal financing of the two sales programs. Sales for foreign currency under the Mutual Security Program are administered by the Agency for International Development (formerly International Cooperative Administration) and Title I is administered by the U.S. Department of Agriculture. Under the Mutual Security Program farm commodities sold abroad for foreign currencies were purchased with dollars by AID from the CCC price-support inventories or in the domestic market. Foreign currency receipts totaled

---

2/ Sales of surplus farm commodities for foreign currency were made also by the CCC under its charter (P.L. 806, as amended). In the fiscal years 1954 and 1955, CCC foreign currency receipts were equivalent to $19 million and $11 million, respectively. In subsequent years CCC receipts from sales, when made, have been less than $500,000 annually.

$192 million in the year ending June 30, 1961, well below the record of $392 million in fiscal 1957 (table 2). Foreign currency receipts were used, as far as possible, for the same foreign aid and economic assistance purposes as stipulated in the congressional dollar appropriations.

Title I, P.L. 480 sales of surplus farm commodities to eligible countries are made by agreements between the United States and foreign governments. Surplus farm commodities and the cost of ocean transportation are exchanged for an equivalent value of foreign currencies. These agreements stipulate the commodities that are to be purchased, the amount of foreign currency to be received in payment at the appropriate exchange rate, and designate the planned disposition of such currency receipts among the various uses authorized by Section 104, Title I, P.L. 480.

Foreign currency receipts are allocated in part for use by the purchasing country, and in part for use by the U.S. Government. The authorized functions financed by foreign currencies and the U.S. agencies responsible for administering the disbursements are as follows:

Foreign currencies available to purchasing countries:

1. Section 104(c): Procurement of military supplies, facilities, and services for the common defense--Department of State (AID); and procurement and rehabilitation of vehicles for Asian countries--Department of Defense.

2. Section 104(e): Foreign currency grants to foreign governments for economic development--Department of State (AID); Loans in currencies to private business firms, to U.S. firms for business development and trade, and to U.S. firms and firms of the host country to establish facilities to help consume and market U.S. agricultural products--formerly administered by Export-Import Bank of Washington, now administered by AID.

3. Section 104(g): Loans to promote economic development in participating countries--Department of State (AID).

Foreign currencies available to the U.S. Government:

1. Section 104(a): Development of markets for U.S. agricultural commodities by cooperative programs with trade and agricultural groups, trade fair activities, and utilization and marketing research grants to foreign institutions--Department of Agriculture.

2. Section 104(b): Purchase of strategic and other materials for the supplemental stockpile--Office of Defense Mobilization.

3. Section 104(d): Purchase of goods and services for other friendly nations--Department of State (AID).

Table 2.--Foreign currencies acquired through sale of surplus farm commodities; dibursements and balance; July 1, 1954-June 30, 1961 (millions of dollar equivalents)

Item	1954	1955	1956	1957	1958	1959	1960	1961
Foreign currencies acquired through sales								
Mutual Security Acts	113	294	374	392	219	211	170	192
Title I, P.L. 480		73	436	1010	711	779	877	1006
Commodity Credit Corporation	19	11	1	---	*	*	*	*
Total	132	378	811	1402	930	990	1047	1198
Disbursements								
Mutual Security Acts	15	108	294	364	280	270	186	186
Title I, P.L. 480			108	186	319	542	445	600
Commodity Credit Corporation	*	11	10	3	1	*	*	3
Total	15	119	412	553	601	812	631	789
Balance of foreign currencies								
Mutual Security Acts	98	186	80	28	-61	-59	-16	6
Title I, P.L. 480		73	328	824	392	239	432	406
Commodity Credit Corporation	19	---	-9	-3	-1	*	*	-3
Total	117	259	399	849	329	178	416	409

* Less than $50,000.

U.S. Department of Commerce, Foreign Grants and Credits by the United States Government. National Advisory Council on International Monetary and Financial Problems, Semi-annual Report, Jan-June 1960.

4. Section 104(f): Payment of U.S. obligations abroad (including military family housing)--any authorized U.S. Government agency.

5. Section 104(h): International educational exchange--Department of State.

6. Section 104(i): Translation, publication, and distribution of books and periodicals--U.S. Information Agency.

7. Section 104(j): Assistance to American-sponsored schools, libraries, and community centers--Department of State and U.S. Information Agency.

8. Section 104(k): Translation and dissemination of scientific publications and programs of scientific agricultural, medical, cultural, and education cooperation--U.S. Information Agency, U.S. Department of Agriculture, and other U.S. Government agencies as authorized.

9. Section 104(1): Acquisition of sites and buildings for U.S. Government use abroad--Department of State.

10. Section 104(m): Participation in agricultural and horticultural fairs and trade fair centers--U.S. Information Agency.

11. Section 104(n): Acquisition, indexing, and dissemination of foreign publications--Library of Congress.

12. Section 104(o): Expansion of U.S. educational studies--Department of State.

13. Section 104(p): Supporting workshops and chairs in U.S. studies--Department of State.

14. Section 104(q): Purchase of nonfood items for emergency relief purposes--Department of State (AID).

15. Section 104(r): Audio-visual informational and educational materials--Department of State (AID).

16. Section 104(s): Sales of currencies for dollars to American tourists--U.S. Government disbursing officer.

From the enactment of Title I, P.L. 480 through fiscal 1961, foreign currencies received in exchange for surplus farm commodities totaled the equivalent of $4.9 billion, or roughly the value of total farm exports in fiscal 1961. In fiscal 1961, disbursements of such currencies totaled the equivalent of $600 million. These currencies were disbursed for the following functions:

	Million dollar equivalents
Common defense, Section 104(c)	$34
Financing goods and services for third countries, Section 104(d)	8
Promoting economic development Section 104(e)	62
Loans to private enterprises Section 104(e)	19
Loans to foreign governments Section 104(d) (g)	360
Currencies used by U.S. Government agencies	117
Total disbursements authorized under Section 104, Title I	$600

U.S. BALANCE OF INTERNATIONAL PAYMENTS

The U.S. balance of international payments is a social accounting statement that statistically measures economic transactions involving the exchange of goods, services, gold, and capital claims between residents of the U.S. and residents of the rest of the world during any given period. Residents are defined to include the government and all its agencies and subdivisions, corporations organized under local laws, and individuals.

For the 11-year period ending June 30, 1961, the U.S. balance of international payments has been in deficit every year except two, 1952 and 1957 (fig. 2). In the first 8 years, the deficit averaged over $1 billion annually. The deficit in the last 3 fiscal years--1959, 1960, and 1961--totaled $3.7 billion, $2.6 billion, and $2.7 billion, respectively.

As a result of recurring deficits and the consequent outflow of monetary gold the U.S. balance of international payments has received worldwide attention. The probability that recurring balance of payments deficits will weaken confidence in the dollar abroad has caused concern. If this happens, many foreign central governments and foreign central banks would find it advantageous to convert more of their already sizeable dollar holdings into gold. Normally, these foreign entities seek to maintain some kind of stable ratio of dollar holdings to gold reserves; recurring U.S. balance of payments deficits over the past decade have resulted in a growing amount of foreign dollar holdings, particularly in the industrial countries of Western Europe. Conversion of a large part of these dollar holdings has already caused a large outflow of monetary gold.

In view of the wide publicity that deficits and the outflow of gold have received in recent years, it is appropriate at this time to examine the importance of farm exports to the U.S. balance of payments.

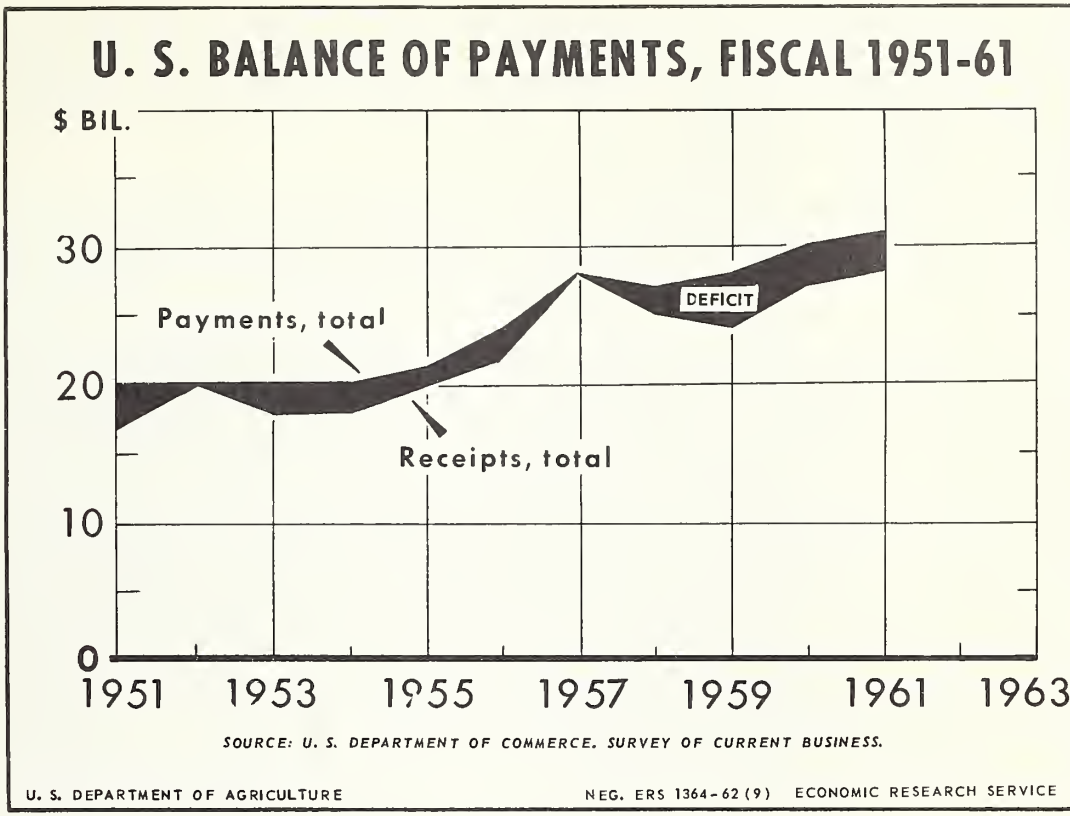

Figure 2

IMPORTANCE OF FARM EXPORTS TO U.S. BALANCE OF PAYMENTS

U.S. farm exports sold through regular commercial channels are recorded as dollar earnings (credit) in the balance of payments merchandise trade account and represent the receipt of dollars. Included are exports assisted financially under the CCC Commodity Export Program, the CCC Export Credit Program, and the Export-Import Bank. Also included are farm exports financed under Title IV, P.L. 480. 3/ The value of these farm exports reflects the actual amounts charged to foreign purchasers.

Farm exports exchanged for foreign currencies under Title I, P.L. 480, the Mutual Security Act and the CCC Charter Act, or donated and bartered under P.L. 480, are recorded as dollar earnings (credit) to the merchandise trade account but do not represent the receipt of dollars. Foreign

---

3/ Farm exports financed under Title IV, P.L. 480 are recorded at the time of record in the merchandise trade account (credit) and again in the U.S. Government long-term capital account (debit). Thus the effect on the overall balance of payments is neutral. However, repayments of principal and interest in dollars over the period of the loan represent a credit in the balance of payments.

currencies received in payment for surplus farm commodities exported under Title I, P.L. 480 and converted to dollar equivalents are recorded as a merchandise export (credit). Farm exports under Titles II and III of P.L. 480 are valued at export value; this value is imputed as a dollar receipt (credit) to the merchandise account.

CCC export payments, when made in cash or in kind, are excluded from the U.S. balance of payments. However, if farm commodity in-kind export payments are subsequently exported, they would be recorded in the merchandise trade account of the balance of payments as a dollar receipt (credit).

In view of the wide publicity that recurring balance of payments deficits and the outflow of gold have received in recent months, misconceptions often arise concerning the effect upon the U.S. balance of payments of farm exports sold for foreign currencies or donated abroad. 4/ It is not correct to conclude that P.L. 480 farm exports sold for foreign currencies or donated abroad contribute to the magnitude of the recorded balance of payments deficit. It is equally incorrect to assume that farm exports financed under this legislative mandate generate an equal amount of dollar receipts. In reality these receipts are foreign currencies expressed in dollar equivalents and the imputed dollar value of farm commodities donated abroad. A merchandise trade balance of $5.8 billion in fiscal 1961 would be $4.5 billion if these farm exports financed by the U.S. Government were excluded.

Farm exports sold for foreign currencies under Title I of P.L. 480 or donated under Titles II and III of P.L. 480 are recorded once as a receipt (credit) and once as a payment (debit) (table 3). Examination of these specific farm export transactions within the conceptual framework of the U.S. balance of payments indicates that they exercise a zero effect on the overall balance of U.S. foreign transactions as measured by changes in U.S. holdings of gold and convertible currencies and in the foreign holdings of liquid dollar assets ($2.7 billion in fiscal 1961). If these farm export transactions were excluded from the balance of payments, the level of the deficit incurred in fiscal 1961 would remain at $2.7 billion.

4/ For the purpose of this paper, the analysis of farm exports financed by the U.S. Government and recorded in the balance of payments is restricted to a discussion of exports financed under Titles I, II and III of P.L. 480 (sales for foreign currencies and donations abroad). Additional farm exports are financed under P.L. 480, Title III, barter operations and Title IV, long-term commodity credits. The former transaction represents a barter transaction and the latter is in effect a long-term dollar credit extended to foreign countries which desire to purchase U.S. surplus farm commodities. These and other farm export transactions discussed above are excluded from the following analysis but remain a part of the balance of payments.

Table 3.--U.S. balance of international payments and Public Law 480 transactions, fiscal year 1961

Type of transaction	All transactions (gross)	Titles I, II & III P.L. 480 transactions 1/	All transactions net of selected P.L. 480 transactions
	(Million U.S. dollars or equivalents)		
U.S. payments, recorded total	-31,281	-1,353	-29,928
Imports, total	-22,416	-117	-22,299
Merchandise	-13,900	---	-13,900
Military expenditures	-3,045	2/ 3/ -8	-3,037
Government miscellaneous services	-337	3/ 4/ -109	-228
Other services	-5,134	---	-5,134
Remittances and pensions	-868	---	-868
Government grants and capital outflows	-3,610	-1,236	-2,374
Government grants	-1,820	-451	-1,369
Government capital outflows	-1,790	-785	-1,005
Long-term capital	-1,350	-379	-971
Foreign currency holdings and short-term claims, net	-440	-406	-34
U.S. private capital, net	-4,387	---	-4,387
Direct investments, net	-1,904	---	-1,904
Long-term portfolio, net	-702	---	-702
Short-term, net	-1,781	---	-1,781
U.S. receipts, recorded total	29,588	1,353	28,235
Exports, total	27,904	1,353	26,551
Merchandise	19,729	3/ 1,301	18,428
Transportation	1,785	52	1,733
Services and military sales	6,390	---	6,390
Repayments on U.S. Government loans 5/	1,284	---	1,284
Foreign capital; other than liquid funds	400	---	400
Excess of recorded receipts or payments (-)	-1,693	0	-1,693
Unrecorded transactions	-973	0	-973
Total net receipts (+) or payments (-) 6/	-2,666	0	-2,666
Memorandum items			
Gold and convertible currencies /purchases (-), sales (+)7/	1,574	0	1,574
Liquid liabilities, total (increases +)	1,092	0	1,092
Changes in holdings of gold and convertible currencies by U.S. monetary authorities and in liquid liabilities	2,666	0	2,666

1/ Excludes agricultural transactions authorized under Title III (barter) and Title IV (long-term commodity credits) financed by the U.S. Government under P.L. 480. It follows that agricultural transactions under these U.S. Government export payments are included in all transactions (gross) and all transactions net of P.L. 480 transactions shown.
2/ Available to U.S. Government agencies without charge to dollar appropriations and expended to purchase goods and services abroad.
3/ Although foreign currencies equivalent to $117 million are shown as individual payment transactions, in practice this amount is later netted against total receipts of foreign currencies acquired through Title I, P.L. 480 agricultural sales abroad (equivalent of $1,006 million).
4/ The equivalent of $98 million was purchased by U.S. Government agencies with dollars from the Treasury Department and expended to purchase goods and services abroad. The equivalent of $11 million was available to U.S. Government agencies without charge to dollar appropriations.
5/ Includes $17 million in interest and $4 million in principal collected on previous U.S. Government credits authorized under Title I, P.L. 480. A part of this receipt is in foreign currencies and the remainder is U.S. dollars.
6/ Overall balance equals change in holdings of gold and convertible currencies by U.S. monetary authorities and changes in liquid liabilities.

U.S. Department of Commerce. Foreign Grants and Credits by the United States Government, June 1961 quarter, fiscal year 1961 review. Survey of Current Business, December 1961, p. 22 and March 1962, p. 22.

Exports of surplus farm commodities sold for foreign currencies under Title I of P.L. 480 have sometimes been criticized as displacing normal commercial sales by the United States and other exporting countries of such commodities. While commercial sales of a specific commodity may be adversely affected in some cases by surplus disposal under Title I, any decline in commercial sales of farm commodities will not have an adverse impact upon the balance of payments of the supplying country so long as the recipient country increases by a like amount, or by more, commercial purchases from the supplying country of other agricultural commodities, non-agricultural goods and/or services, or any combination of the two. Thus, any decline in dollar purchases of U.S. agricultural products resulting from Title I sales would have no adverse effect upon the U.S. balance of payments, and thus would lead to no loss of gold, so long as the recipient country maintains, or raises, its previous level of total dollar purchases.

Within the limits established by Title I of P.L. 480 any agricultural commodity found by the Secretary of Agriculture to be in surplus may be sold for foreign currencies only so long as precautions are taken that such sales do not displace normal trade (i.e. regular sales for dollars) or unduly disrupt world market prices. 5/ Moreover, the balance of payments of the proposed recipient is reviewed in determining the eligibility of the country for Title I programs, the assumption being made that, except for unusual or extremely adverse conditions, the recipient country will maintain at the current level, or raise to a higher level, total dollar purchases in the United States.

U.S. Government financed farm exports under Title I and donations under Titles II and III are not without significance to the U.S. balance of payments. In fiscal 1961, farm exports sold for foreign currencies and donated abroad totaled $1.3 billion, thus representing 7 percent of total merchandise exports. Transportation costs paid on donated farm commodities added another $52 million to transportation receipts (credits). This $1.4 billion was 4.8 percent of the total export value of goods and services and 4.6 percent of total U.S. recorded receipts.

Farm exports financed under Title I, P.L. 480 generated foreign currency receipts of $1.0 billion in fiscal 1961. This receipt appears in the balance of payments statement as an export earning (credit) but is offset by payments (debits) of an equal amount distributed as follows: disbursements of currencies equal to $0.6 billion and foreign currency holdings and short-term claims equal to $0.4 billion. The value of donated farm commodities financed under Titles II and III and the transportation costs are recorded as a dollar receipt (credit) and offset by a recorded payment (debit) to the U.S. Government grant account.

5/ Agricultural Trade Development and Assistance Act of 1954, as amended (P.L. 480).

Foreign currency disbursements in fiscal 1961 (equivalent to $0.6 billion) were distributed as follows: 63 percent or $379 million loaned by the U.S. Government to private enterprises and foreign governments as authorized under Subsections 104(d), (e), and (g), of Title I, P.L. 480; 17 percent or $104 million disbursed as U.S. Government financial grants authorized under Subsections 104(c), (d), and (e); and 20 percent or $117 million used by authorized U.S. Government agencies to purchase goods and services abroad.

Grants of Title I, P.L. 480 foreign currencies ($104 million) together with donated surplus farm commodities and transportation costs ($347 million) represented one-fourth of total U.S. Government economic grants in fiscal 1961. Loans of Title I foreign currencies ($379 million) represented almost one-third of total U.S. Government loans.

Although the above described P.L. 480 transactions exercise a zero effect on the U.S. balance of payments statement, foreign currencies acquired through the sale of surplus farm commodities are utilized advantageously in financing part of U.S. Government military and economic assistance operations abroad. The utilization of Title I foreign currencies which are available without charge to dollar appropriations totaled the equivalent of $502 million in fiscal 1961. Availability of this currency enables the U.S. Government to finance military and economic assistance operations in addition to the amount provided for in dollar appropriations. Foreign currencies supplementing dollar appropriations were used to finance the following operations in the amounts indicated: the equivalent of $8 million for military expenditures, $11 million for various Government purchases and miscellaneous services, $104 million for economic grants, and $379 million for foreign loans. In the absence of these foreign currencies, the deficit in the U.S. balance of payments would have been larger by the equivalent dollar value of these currencies used, assuming no reduction in U.S. expenditures and the purchase for dollars of the needed foreign exchange. Mandatory dollar purchases from the Department of Treasury of available foreign currencies equivalent to $98 million prevented the movement of that additional amount of dollars outside the country. These purchases financed regular diplomatic and other U.S. Government agency operations abroad.

The substitution for dollars of U.S. held foreign currencies in partially financing U.S. military and economic assistance programs and U.S. Government operations abroad prevents the possible addition of that amount or less to the dollar holdings of foreign governments and monetary authorities which could have resulted from dollar purchases of the respective foreign exchange. Hence, claims on the U.S. monetary gold stock are not increased. With an increase of $1 billion in fiscal 1961 in the holdings of dollars--and thus claims on the U.S. gold monetary stock--by foreign governments and monetary authorities, in percentage terms over 40 percent of the U.S. balance of payments deficit for that year, programs which generate needed foreign exchange without dollar purchase of such exchange, take on added, and positive, importance.

CONCLUSIONS

The importance of farm exports to the U.S. balance of international payments lies primarily in the level of dollar receipts these exports produce when sold abroad. In addition, U.S. Government financed farm exports, including the donation and sale of surplus farm commodities for foreign currencies, complement this Nation's overall economic assistance policy in assisting underdeveloped countries. The magnitude of farm exports, $4.9 billion in fiscal 1961, is important to the income position of U.S. producers and to the entire farm sector of the economy. 6/ Recognizing the importance of farm exports, the U.S. Government has over the years actively promoted the export of farm commodities. On the one hand, the U.S. Government farm export programs encourage dollar sales abroad and at the same time assist underdeveloped countries.

Utilization of surplus farm commodities by underdeveloped countries reduces the burden on the U.S. balance of international payments of our economic assistance to these countries, and meets immediate human nutrition needs abroad. As underdeveloped nations move toward economic development, long-term commodity loans under the Title IV, P.L. 480 program will probably become the major credit mechanism for moving surplus farm commodities abroad. The Title IV sales program is designed for the transitional period between the sale of farm commodities for foreign currencies under Title I of P.L. 480 and sales through regular commercial channels. Unlike private or other U.S. Government farm export financing, Title IV commodity loans, repayable in dollars, may be made for periods up to 20 years. Dollar repayments under this program will gradually increase over future years.

Agriculture plays a significant role in the total foreign trade picture of the United States. Although the level of non-farm merchandise exports accounted for receipts of almost $15 billion in fiscal 1961, these exports represented only 6 percent of the non-farm business sector's total output of goods. Agricultural exports, on the other hand, accounted for 14 percent of the total output originating in the farm sector and added almost $3 billion in dollar receipts to the balance of merchandise trade. It is evident that continued private and public promotion of farm exports increases farm sector income and benefits the U.S. balance of payments, both directly through dollar earnings and indirectly through generation of foreign exchange without offsetting foreign held dollar claims.

6/ The fiscal year ending June 30, 1962, was another historic one for U.S. farm exports. Their value reached an alltime high of $5.1 billion. Nearly 70 percent or $3.5 billion were sales for dollars.